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SUBJECT: ICELANDIC ECONOMIC CRISIS: GOI REACHES AGREEMENT ON IMF
PACKAGE OF 2 BILLION

¶1. (U) The Icelandic Prime Minister, Foreign Minister and visiting IMF team held consecutive press conferences on October 24 to announce an agreement on an IMF package encompassing a roughly \$2 billion IMF loan to Iceland.

¶2. (U) Prime Minister Haarde and Foreign Minister Gisladdottir announced that the Icelandic Government had approved a decision to formally request IMF assistance, and the opposition political parties had been briefed on this. Iceland will take a 2 billion USD loan from the IMF to be paid back between 2012 and 2015. The hope is that the IMF package will help open other lines of credit to meet the immediate goal of 6 billion USD. They said that the Russian loan is still a possibility in this framework, but the amount will likely be lower than the 4 billion Euro initially discussed. There are no current plans to raise taxes to meet the debt, but this can't be ruled out. Haarde said he expected the next six months to be "very difficult." Iceland views the dispute with the UK government and the IMF package as two separate issues. This loan will not be used to pay off debts of the collapsed banks -- the government will not take public debt to meet private obligations. The PM noted that he alone has power to appoint and fire Central Bank Governors and that he has no plans to make changes to the board at present.

¶3. (U) IMF Delegation led by Paul Thomassen announced that the hope that the IMF Board will approve the 2 billion USD loan package within the next ten days, which would make 800 million USD available immediately. This infusion of cash will allow Iceland to start foreign trading of the Krona again, and hopefully mitigate a "flight of capital" and a sharp depreciation of the Krona. The IMF expects a recession next year of approximately ten percent of Iceland's GDP, but admitted this is a very uncertain figure. Inflation will spike at first, but should drop to 4.5 percent by end of 2009. The Iceland-UK agreement on IceSave deposits was not a prerequisite for the IMF package, but ongoing talks between Iceland-UK and Iceland-Holland on bank deposits are part of approach that IMF expects to GOI to follow to ensure long term financial stability.

¶4. (U) Post emailed a copy of the IMF press release to the desk.

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